Opportunities Abound, the Southern Automotive Industry

Current State and Future Head Winds

HARBOUR RESULTS INC.

Preparing for the future, while optimizing the present

Presented by: Laurie A. Harbour
President & CEO

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Harbour Results Credentials

- Operations and strategy consulting firm serving manufacturing clients.
- Over 50 manufacturing/tooling assessments performed globally each year.
- Tool supplier certification group for major N.A. automotive OEM, working with other OEMs on tooling strategies.
- Working with tooling and manufacturing (plastics, stamping, machining, etc.) companies in N.A. to improve performance, throughput, strategy and overall profitability.
- Recent assessments in the U.S., Canada, Europe, China and Korea.
- Published the landmark 2013 Automotive Vendor Tooling Study in Oct. 2013.
- Quarterly co-facilitate the OESA Tooling Forum since 2012.
- Benchmark database of 400+ manufacturing and 180 tooling assessments.
- Currently doing additional benchmarking in tooling and manufacturing, extending to other industries (consumer, medical, appliance, etc.) and developing on-going information to be launched in 2015.

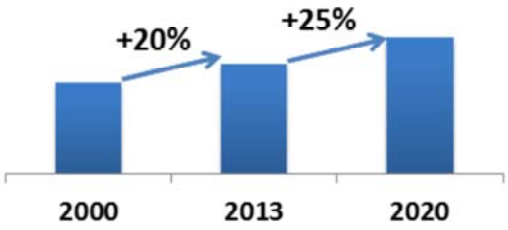
Current State of the Economy

- ✓ Manufacturing is flat; automotive is up; non-auto not growing as fast
- ✓ Market growth and GDP
- ✓ Multiple challenges
  - Healthcare
  - Acquisitions/mergers
  - Market instability
- ✓ Hot and cold markets leading to a lot of "wait and see"

Current State of Manufacturing

Current State of Manufacturing

Number of Tools per Vehicle



2004 Chevy Impala

2014 Chevy Impala

Current State of Manufacturing

Motorola Cellular

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Regardless of the industry; customization and complexity are the norm

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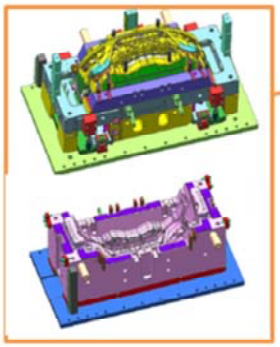
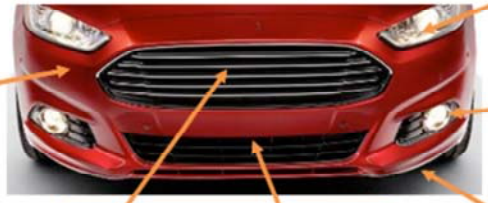
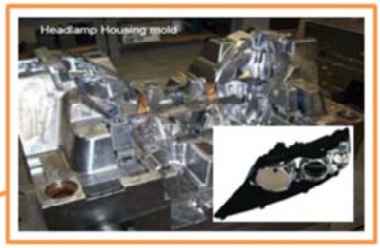
Vendor Tooling Facts

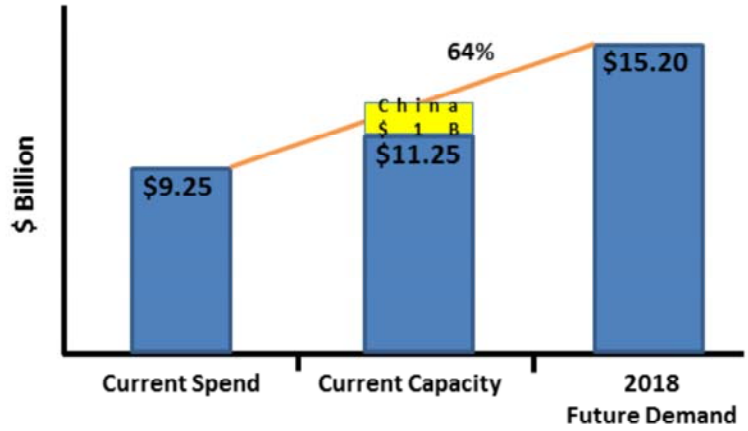
- There are 7,000+ tools to make a vehicle
  - The study focused on the 3000+ critical die and mold tools
- Tools range in value from $5K to $1M
  - Example: front fascia tool ranges from $500K to $1M with 35+ more tools to make the complete assembly (excludes lighting)







N.A. Automotive Vendor Tooling Projection

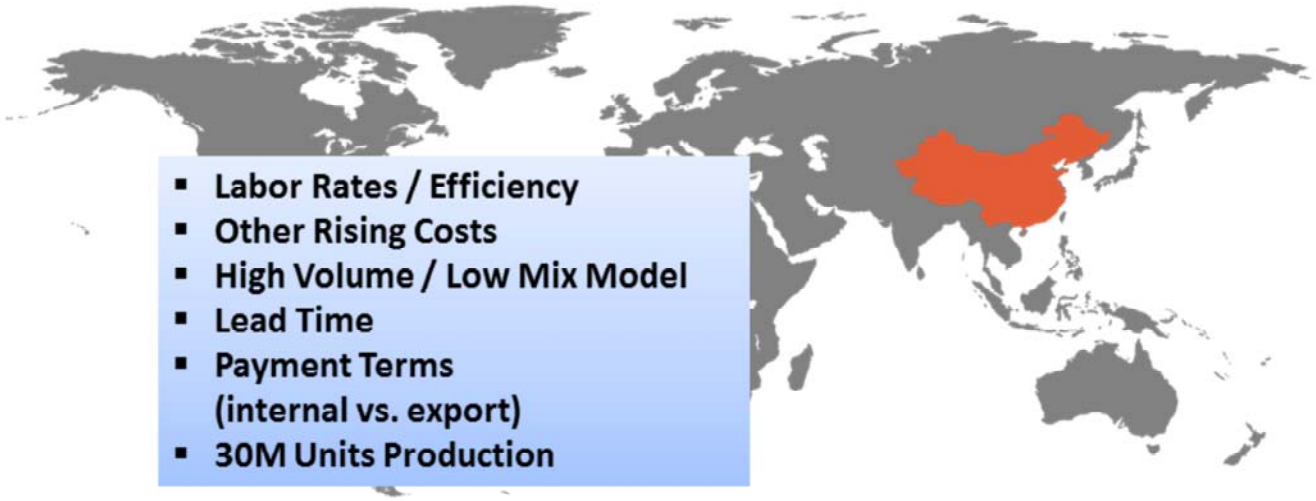


- *Current Spend = the total of 10 OEMs current annual spend on vendor tooling in N.A.*
- *Current Capacity = tool suppliers are 90% + auto tool makers, can manufacture 100% of the complete tool, die and mold only, and willing and able to grow with the industry.*
- *2018 Future Demand = based on 2012 baseline and estimated N.A. model launches (all new and major); Source: LMC Automotive, IHS, OEM Interviews and HRI Estimates.*

Future Demand Assumptions

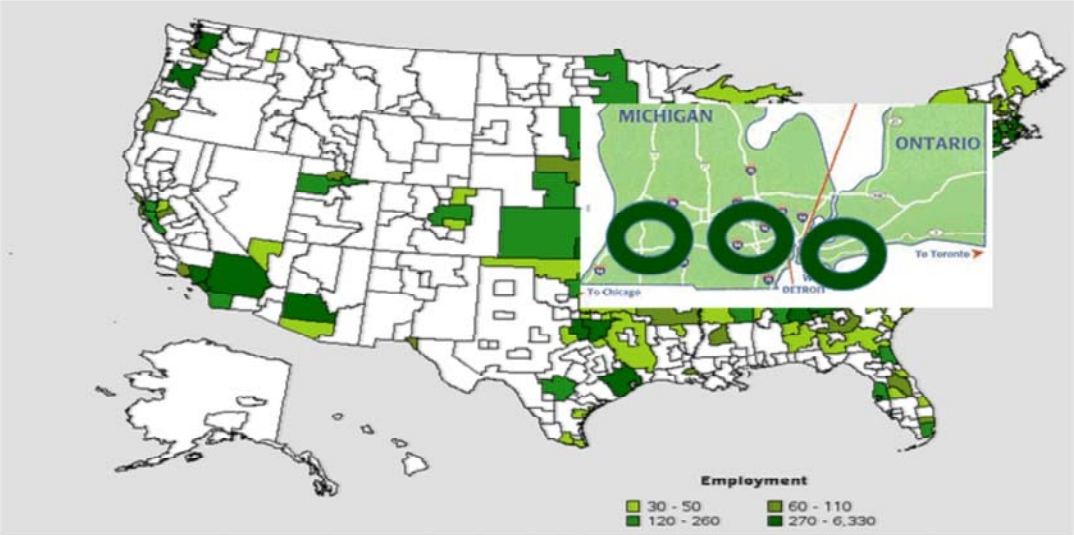
- Constant/growing spend for Detroit 3 for next 5 years
- Foreign investment pouring into N.A. in the next 5 years
- Significant number of new vehicle launches
- Dramatic in-sourcing of tools from Japan/Europe to N.A.
- Added complexity/customization driving more tools per vehicle (20 – 25%) in the next 5 years
- Potential re-shoring of tools from LCC or demand from non-auto industries for tools was not factored into this analysis

Will China Solve the Capacity Challenge?



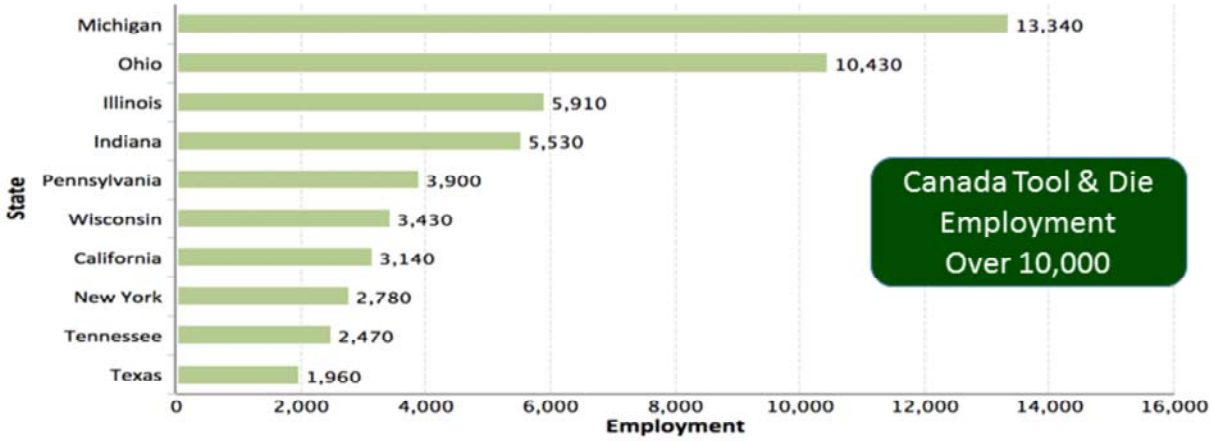
- Labor Rates / Efficiency
- Other Rising Costs
- High Volume / Low Mix Model
- Lead Time
- Payment Terms (internal vs. export)
- 30M Units Production

Concentration of Tooling Suppliers in US/Canada



Source: U.S. Bureau of Labor Statistics & BCS

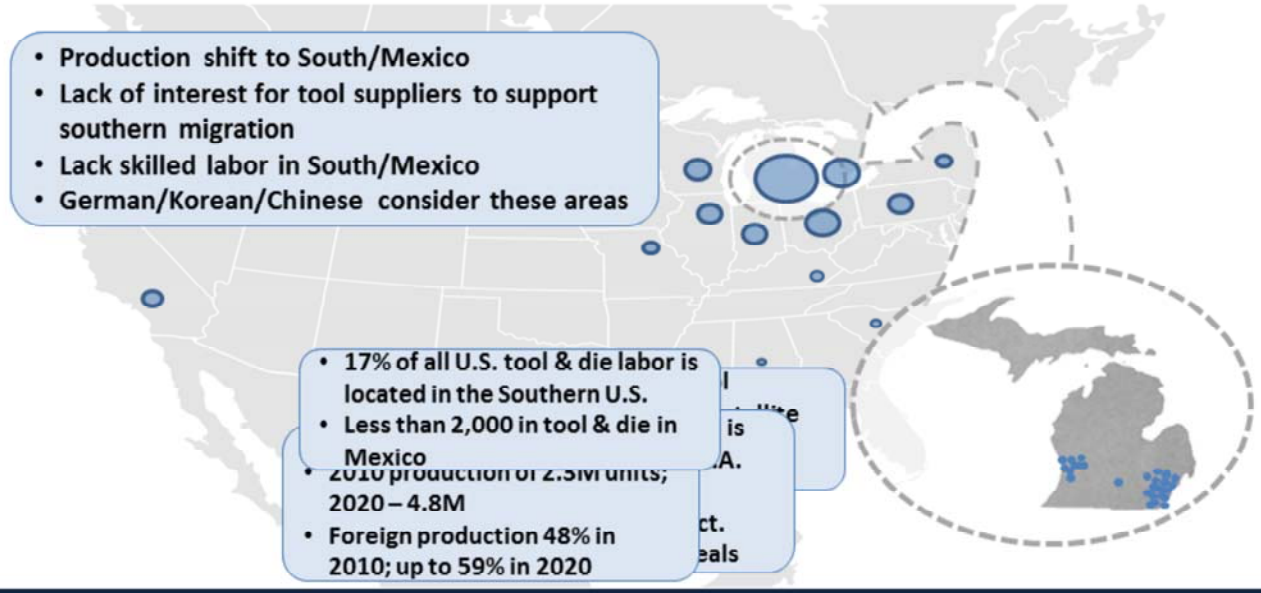
U.S. States with Highest Employment – Tool & Die



Canada Tool & Die Employment Over 10,000

Source: U.S. Bureau of Labor Statistics & BCS

Shift to South and Mexico – But for Tooling . . .

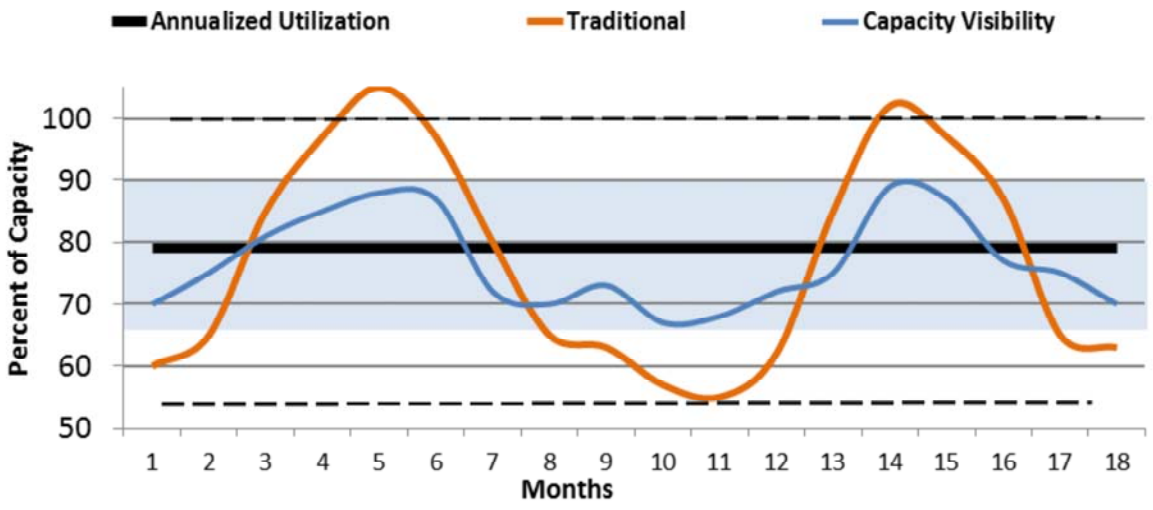


- Production shift to South/Mexico
- Lack of interest for tool suppliers to support southern migration
- Lack skilled labor in South/Mexico
- German/Korean/Chinese consider these areas

- 17% of all U.S. tool & die labor is located in the Southern U.S.
- Less than 2,000 in tool & die in Mexico

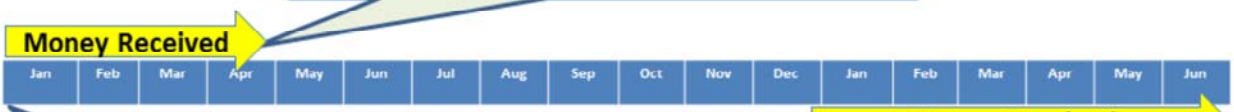
- 2010 production of 2.3M units; 2020 – 4.8M
- Foreign production 48% in 2010; up to 59% in 2020

The Life of a Tool Supplier



Variation in Payment Terms

Low Cost Country (LCC) Supplier
Legally must receive payment (90-95%) prior to shipment of tools outside their country to other regions; significant competitive advantage for LCC tool suppliers over N.A.

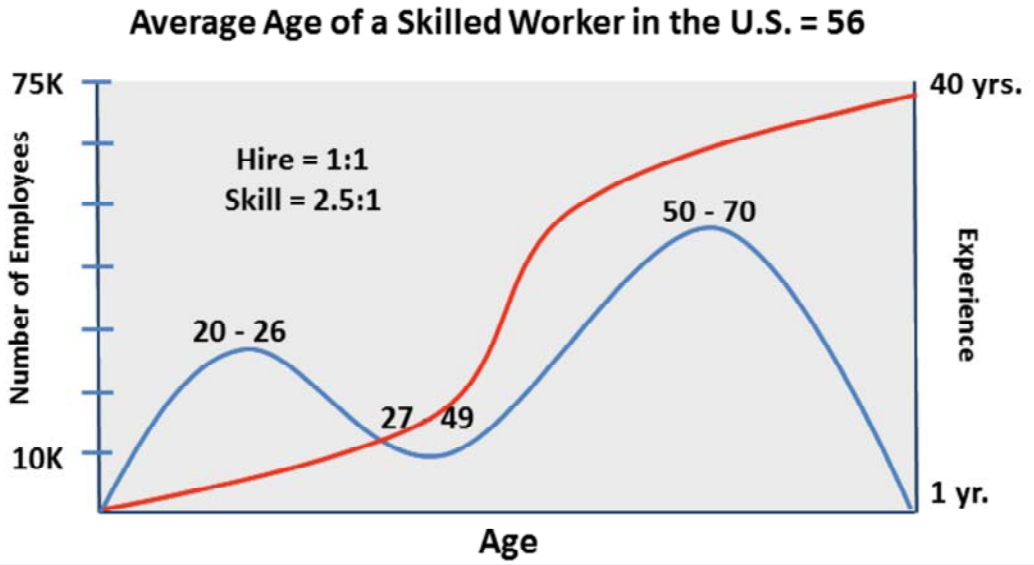


Tool kick off for LCC or N.A. Supplier

North American Supplier
Typically payment terms from N.A. OEMs are PPAP Terms (100% at PPAP + 45 Days (12 to 18 Months)

Study concludes that tooling suppliers with OEM PPAP payment terms received payment an avg. 16 months after tool kick-off

The Talent Gap



Best Practices: Recruiting the Next Generation

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U.S. Manufacturing is in Crisis related to labor – major call to action

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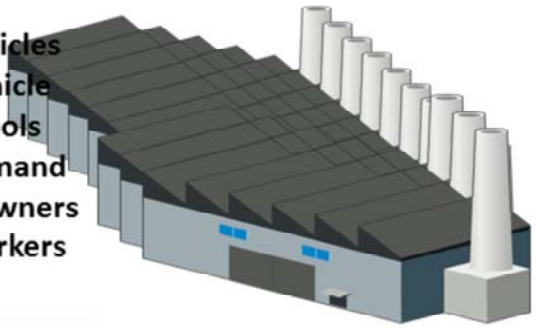
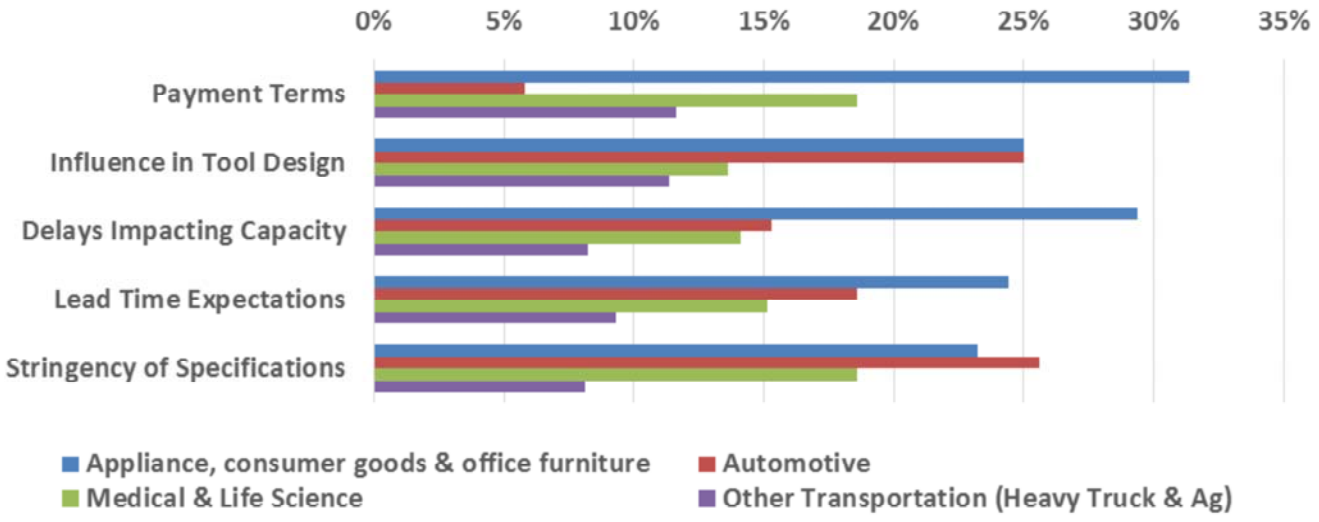
Headwinds on Supply and Demand

- Launch of new vehicles
- More tools per vehicle
- Insource foreign tools
- Other industry demand
- Age of tool shop owners
- Average age of workers
- Risk is too high

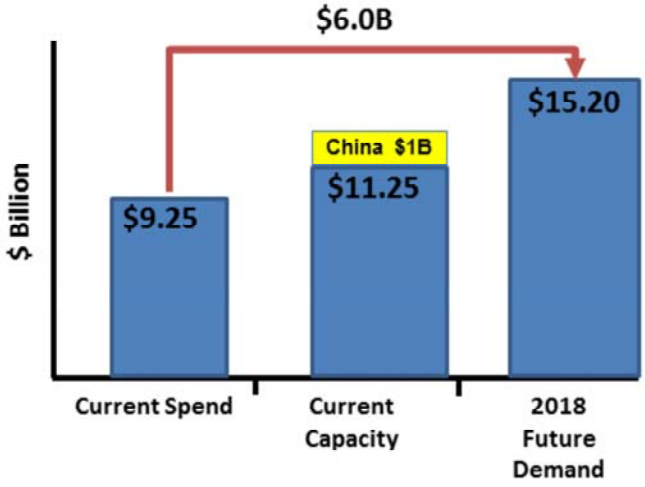


Which Of The Key Industries Is Best?



Source: HRI-OESA Tooling Study – Sept 2013

How Does the Industry Close the Gap?



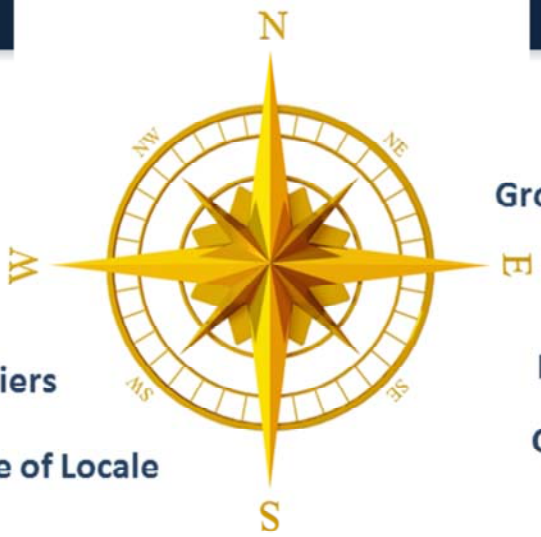
- ✚ Current tool supplier throughput or capacity growth (+10%) that they control
- ✚ Additional tool supplier capacity in N.A. with new plants from Germans/Chinese/Koreans
- ✚ More capacity/sourcing to China or other low cost country regions
- ✚ Some sourcing from Europe
- ▬ Loss of skilled trades

HRI estimates a $2.0 to 2.5B gap after these adjustments

Head Winds for the Next 5 to 10 Years

Customer

- Price Pressures
- Lead Time Pressures
- Complexity
- Expectations of Suppliers
- Opportunities Outside of Locale



Industry

- Growth in Mexico
- Growth of Foreign OEMs
- Ease of Entrance into Industry
- Forced Fragmentation
- Connectivity/Multiple Media Integration

Head Winds for the Next 5 to 10 Years

Thank you for the Opportunity

Laurie A. Harbour
lharbour@harbourresults.com
www.harbourresults.com
248-875-7833
@HarbourResults
Company Page: Harbour Results, Inc.